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REPORT TO THE CONGRESS

Audit Of Financial Statements Of The Veterans Canteen Service For Fiscal Year 1969 B-114818

Veterans Administration

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

JAN. 13, 1970

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-114818

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on our audit of the financial statements of the Veterans Canteen Service, Veterans Administration, for fiscal year 1969, pursuant to the act of August 7, 1946 (38 U.S.C. 4207).

Copies of this report are being sent to the Director, Bureau of the Budget; Secretary of the Treasury; and Administrator of Veterans Affairs.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

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D I G E S T

WHY THE AUDIT WAS MADE

The General Accounting Office (GAO) has completed its annual audit of the financial statements of the Veterans Canteen Service, Veterans Administration (VA) as required by law.

The Canteen Service is a self-sustaining operation. All income is deposited into a revolving fund created to finance the establishment, maintenance, and operation; and all payments are made from this revolving fund. Any balance in the fund at the close of the fiscal year in excess of the estimated requirements for the following fiscal year is to be deposited into the U.S. Treasury as miscellaneous receipts.

FINDINGS AND CONCLUSIONS

In GAO's opinion the financial statements in this report present fairly the financial position of the Veterans Canteen Service at June 30, 1969, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

From inception to June 30, 1969, the Canteen Service had accumulated profits of \$18,964,140 and had paid \$12,068,086 into the general fund of the Treasury. Excess funds of \$47,006 were paid into the Treasury in fiscal year 1969. Canteen Service officials estimated that no funds would be available for payment into the general fund of the Treasury during fiscal year 1970.

In fiscal year 1969 the net income amounted to \$906,178, an increase of \$208,885 over the net income of the prior year. The Veterans Canteen Service attributed the net income increase primarily to increases in sales prices of selected items made to generate sufficient funds for working capital requirements and to offset increased expenses. As is common with most Government agencies, certain expenses, which GAO estimated to be about \$156,000, were not borne by the Canteen Service. These expenses included the cost of space and utilities furnished without charge by the General Services Administration and the cost of the GAO audit.

RECOMMENDATIONS OR SUGGESTIONS

None.

AGENCY ACTION AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendations or suggestions requiring action by the Congress. It is submitted to the Congress pursuant to the provisions set forth in the U.S. Code (38 U.S.C. 4207) which requires GAO to make an annual audit of the accounts of the Veterans Canteen Service.

GENERAL COMMENTS

The General Accounting Office has made an audit of the financial statements of the Veterans Canteen Service (VCS) for the fiscal year ended June 30, 1969.

VCS was created by the act of August 7, 1946 (60 Stat. 887; 38 U.S.C. 4201), as an instrumentality of the United States within the Veterans Administration for the primary purpose of making available, at reasonable prices, merchandise and services essential to the comfort and well-being of veterans who are hospitalized or who are residing in hospitals and domiciliaries of the VA. At June 30, 1969, merchandise and services were available through canteens at 167 VA hospitals, domiciliaries, and centers located throughout the United States and in Puerto Rico.

VCS is a self-sustaining operation. As provided by 38 U.S.C. 4204, all income is deposited into a revolving fund created to finance the establishment, maintenance, and operation of VCS and all payments are made from this revolving fund. Under 38 U.S.C. 4206, any balance in the fund at the close of the fiscal year in excess of estimated requirements for the ensuing fiscal year is to be deposited in the U.S. Treasury as miscellaneous receipts.

From inception to June 30, 1969, VCS had accumulated profits of \$18,964,140 and had paid \$12,068,086 into the general fund of the Treasury. Excess funds of \$47,006 were paid into the Treasury in fiscal year 1969. VCS estimated that no funds would be available for payment into the general fund of the Treasury during fiscal year 1970.

In fiscal year 1969 the net income amounted to \$906,178, an increase of \$208,885 over the net income of the prior year. VCS attributed the net income increase primarily to increases in sales prices of selected items made to generate sufficient funds for working capital and to offset increased expenses.

As is common with most Government agencies, certain expenses relating to its activities are not borne by VCS and therefore are not included in its financial statements. These expenses include the cost of space and utilities

furnished to VCS in buildings under the control of, or leased by, the General Services Administration and the cost of the annual audit by GAO. We estimated that the cost of space and utilities furnished to VCS was about \$116,000 for fiscal year 1969 and that the cost of the audit by GAO was about \$40,000.

VCS was created by the act of August 1967 (Public Law 90-104, 80 Stat. 280) as an independent agency within the Executive Branch of the Government. The act provided that the Administrator of the VCS should be appointed by the President, with the advice and consent of the Senate, for a term of 5 years, and that he should be a citizen of the United States. The act also provided that the Administrator should be a person of high standing and integrity, and that he should be a member of the bar of the Supreme Court of the United States. The act further provided that the Administrator should be a person of high standing and integrity, and that he should be a member of the bar of the Supreme Court of the United States.

VCS is a self-administered organization. It is a corporation, and its assets are held in trust for the benefit of the United States. The act provided that the Administrator should be a person of high standing and integrity, and that he should be a member of the bar of the Supreme Court of the United States. The act further provided that the Administrator should be a person of high standing and integrity, and that he should be a member of the bar of the Supreme Court of the United States.

From inception to June 30, 1967, VCS had a net income of \$18,140,000. This amount was used to pay the principal and interest on the \$100,000,000 bond issue authorized by the act. The act provided that the Administrator should be a person of high standing and integrity, and that he should be a member of the bar of the Supreme Court of the United States.

In fiscal year 1968, the net income was \$18,140,000. This amount was used to pay the principal and interest on the \$100,000,000 bond issue authorized by the act. The act provided that the Administrator should be a person of high standing and integrity, and that he should be a member of the bar of the Supreme Court of the United States.

As is common with most Government agencies, certain expenses relating to its activities are not borne by VCS and therefore are not included in the financial statements. These expenses include the cost of space and utilities furnished to VCS in buildings under the control of, or leased by, the General Services Administration.

SCOPE OF AUDIT

Our review consisted primarily of an examination of VCS's statement of financial condition as of June 30, 1969, statement of income and expenses, and statement of sources and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances and appropriate in view of the effectiveness of the system of internal control.

The VCS internal audit staff makes selective audits of the canteens and annual audits of the field offices to determine the adequacy and effectiveness of the system of internal control, reliability of the financial records and reports, and compliance with prescribed administrative and operating policies. During our review, we examined the work performed by VCS's internal auditors. As a result of our evaluation of the coverage and quality of the internal auditors' work, we were able to make reductions in our own tests of the accounting records of VCS.

OPINION OF FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements (schedules 1, 2, and 3), which were prepared by VCS, present fairly the financial position of VCS at June 30, 1969, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

FINANCIAL STATEMENTS

VETERANS CANTEEN SERVICE

STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1969 AND 1968

| | <u>June 30</u> | |
|---|---------------------|---------------------|
| | <u>1969</u> | <u>1968</u> |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash (note 1): | | |
| Cash in U.S. Treasury | \$ 547,337 | \$ 148,979 |
| Cash in banks and on hand | <u>3,139,850</u> | <u>2,898,027</u> |
| | 3,687,187 | 3,047,006 |
| Accounts receivable, principally from VA | 514,970 | 549,366 |
| Merchandise inventories, at cost | 6,602,866 | 6,583,018 |
| Prepaid expenses and other assets | <u>20,230</u> | <u>15,928</u> |
| Total current assets | <u>10,825,253</u> | <u>10,195,318</u> |
| FIXED ASSETS (note 2): | | |
| Furniture, fixtures, and equipment | 8,960,256 | 8,535,861 |
| Less accumulated depreciation | <u>4,277,371</u> | <u>4,263,649</u> |
| Net fixed assets | <u>4,682,885</u> | <u>4,272,212</u> |
| Total assets | <u>\$15,508,138</u> | <u>\$14,467,530</u> |
| LIABILITIES AND EQUITY OF U.S. GOVERNMENT | | |
| CURRENT LIABILITIES: | | |
| Accounts payable: | | |
| Trade creditors | \$ 643,430 | \$ 577,033 |
| U.S. Government agencies | <u>80,625</u> | <u>97,747</u> |
| | 724,055 | 674,780 |
| Employees' accrued annual leave | 1,303,721 | 1,248,600 |
| Accrued salaries and wages | 676,113 | 632,188 |
| Due other U.S. Government agencies for employees' payroll deductions, accrued payroll taxes, and other payroll expenses | 165,456 | 126,449 |
| Unredeemed merchandise coupons | 372,919 | 381,170 |
| Other | <u>36,389</u> | <u>34,332</u> |
| Total current liabilities | <u>3,278,653</u> | <u>3,097,519</u> |
| EQUITY OF U.S. GOVERNMENT: | | |
| Appropriated funds--total capital advanced | 4,965,000 | 4,965,000 |
| Donations of property, principally from VA | 368,431 | 368,129 |
| Accumulated net income--prior years | 18,057,962 | 17,360,669 |
| Net income--current year | <u>906,178</u> | <u>697,293</u> |
| | 24,297,571 | 23,391,091 |
| Less excess funds paid into U.S. Treasury, from inception | <u>12,068,086</u> | <u>12,021,080</u> |
| Total equity of U.S. Government | <u>12,229,485</u> | <u>11,370,011</u> |
| Total liabilities and equity of U.S. Government | <u>\$15,508,138</u> | <u>\$14,467,530</u> |

The notes on page 12 are an integral part of this statement.

SCHEDULE 2

VETERANS CANTEEN SERVICE

STATEMENT OF INCOME AND EXPENSES

FOR THE FISCAL YEARS ENDED JUNE 30, 1969 AND 1968

| | <u>Fiscal year ended June 30</u> | |
|--|----------------------------------|-------------------|
| | <u>1969</u> | <u>1968</u> |
| RETAIL DEPARTMENT: | | |
| Sales | \$40,335,959 | \$40,001,854 |
| Cost of goods sold | <u>31,436,468</u> | <u>31,522,289</u> |
| Gross profit | <u>8,899,491</u> | <u>8,479,565</u> |
| Expenses: | | |
| Salaries and wages | 5,717,211 | 5,472,753 |
| Other | <u>1,243,110</u> | <u>1,160,431</u> |
| Total expenses | <u>6,960,321</u> | <u>6,633,184</u> |
| Profit, retail department | <u>1,939,170</u> | <u>1,846,381</u> |
| FOOD DEPARTMENT: | | |
| Sales | 19,439,451 | 18,086,470 |
| Cost of goods sold | <u>10,520,291</u> | <u>9,887,643</u> |
| Gross profit | <u>8,919,160</u> | <u>8,198,827</u> |
| Expenses: | | |
| Salaries and wages | 5,631,662 | 5,505,730 |
| Other | <u>2,341,610</u> | <u>2,109,020</u> |
| Total expenses | <u>7,973,272</u> | <u>7,614,750</u> |
| Profit, food department | <u>945,888</u> | <u>584,077</u> |
| SERVICE DEPARTMENT (profits): | | |
| Barber shops | 134,455 | 162,492 |
| Other | <u>191,129</u> | <u>191,972</u> |
| Profit, service department | <u>325,584</u> | <u>354,464</u> |
| Total operating profit | <u>3,210,642</u> | <u>2,784,922</u> |
| ADMINISTRATIVE EXPENSES (field offices and central office): | | |
| Salaries and wages | 1,949,897 | 1,805,424 |
| Travel and other expenses | <u>482,226</u> | <u>411,332</u> |
| Total administrative expenses | <u>2,432,123</u> | <u>2,216,756</u> |
| NET OPERATING PROFIT (note 3) | <u>778,519</u> | <u>568,166</u> |
| OTHER INCOME--NET | <u>127,659</u> | <u>129,127</u> |
| Net income for year (note 4) | <u>\$ 906,178</u> | <u>\$ 697,293</u> |

The notes on page 12 are an integral part of this statement.

VETERANS CANTEEN SERVICE

STATEMENT OF SOURCES AND APPLICATION OF FUNDS

FOR FISCAL YEARS ENDED JUNE 30, 1969 AND 1968

| | Fiscal year ended June 30 | |
|--|------------------------------|---------------------|
| | <u>1969</u> | <u>1968</u> |
| FUNDS PROVIDED BY: | | |
| Sales of merchandise, including food, and revenues from services furnished | \$63,205,545 | \$61,507,665 |
| Purchase discounts and other revenues | <u>217,111</u> | <u>207,859</u> |
| Total funds provided | <u>\$63,422,656</u> | <u>\$61,715,524</u> |
| FUNDS APPLIED TO: | | |
| Cost of merchandise, including food sold | \$42,639,645 | \$42,048,091 |
| Salaries and wages | 15,368,354 | 14,863,505 |
| Other expenses, excluding depreciation (fiscal year 1969--\$554,762 and fiscal year 1968--\$519,820) which does not require expenditure of funds | 3,864,266 | 3,508,083 |
| Increase in working capital | <u>448,801</u> | <u>398,924</u> |
| Total funds applied to current costs and expenses | 62,321,066 | 60,818,603 |
| Purchase of equipment | 1,054,584 | 896,921 |
| Payment of excess funds in U.S. Treasury | <u>47,006</u> | <u>-</u> |
| Total funds applied | <u>\$63,422,656</u> | <u>\$61,715,524</u> |

The notes on page 12 are an integral part of this statement.

GAO NOTES TO FINANCIAL STATEMENTS

1. Under 38 U.S.C. 4206, any balance in the revolving fund at the close of the fiscal year in excess of the estimated requirements for the ensuing year shall be covered into the Treasury as miscellaneous receipts. Excess funds of \$47,006 were paid into the Treasury in fiscal year 1969.
2. Fixed assets are stated at cost with the exception of donated equipment which is stated at its appraised value at the time of acquisition.

Depreciation is computed on a straight-line basis at an annual composite rate of 8-1/3 percent. Depreciation charges of \$554,762 and \$519,820 are included in expenses for fiscal years 1969 and 1968, respectively.

3. As is common with most Government agencies, certain expenses relating to its activities are not borne by VCS and therefore are not included in its financial statements. These expenses include the cost of space and utilities furnished to VCS in buildings under the control of, or leased by, the General Services Administration and the cost of the annual audit by GAO. We estimated that the cost of space and utilities furnished to VCS by the General Services Administration was about \$116,000 for fiscal year 1969. The cost of the fiscal year 1969 audit by GAO was approximately \$40,000.
4. At June 30, 1968, VCS had not recorded on its books an accrued liability of \$39,993 representing payments made by the Bureau of Employees' Compensation, Department of Labor, on account of injury or death of employees or persons under the jurisdiction of VCS. The accrued liabilities for reimbursements to the Bureau of Employees' Compensation that were not recorded on the books of VCS applied to fiscal years 1967 and 1968. During fiscal year 1969 VCS recorded this liability and charged it to current year's operations. Therefore, net income for fiscal year 1969 is understated by \$39,993.